# REPORT OF EXAMINATION
# Western National Assurance Company
# As of December 31, 1998

State Participating:
Washington

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify based upon our examination, the Report of Examination shows the financial condition and business affairs of Western National Assurance Company of Washington, as of December 31, 1998.

Patrick McNaughton

Chief Examiner, Company Supervision

Date

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Seattle, Washington
June 8, 2000

The Honorable George Nichols, III
Commissioner, Kentucky Department of Insurance
NAIC Chair, Financial Condition (EX4)
PO Box 517
Frankfort, KY 40602-0517

The Honorable Jose Montemayor
NAIC Secretary, Western Zone
Commissioner, Texas Department of Insurance
PO Box 149104
Texas, TX 78714-9104

The Honorable Deborah Senn
Insurance Commissioner
State of Washington
Insurance Building
PO Box 40255
Olympia, WA 98504

Dear Commissioners:

In accordance with your instructions and in compliance with the statutory requirements, an association examination has been made of the corporate affairs and financial records of

**Western National Assurance Company**
**of**
**Seattle, Washington**

hereinafter referred to as the "Company" or "WNAC" at its home office located at 9706 4th Avenue NE, Seattle, Washington 98115. This report of examination is respectfully submitted showing the financial condition of the Company as of December 31, 1998.

## SCOPE OF EXAMINATION

Our examination was conducted on a full scope basis and included all the business affairs and financial condition of the Company for the six year period ending December 31, 1998. The examination was performed in accordance with procedures promulgated by the National Association of Insurance Commissioners (NAIC) and in compliance with the provisions of Washington State insurance laws and regulations. The Company was last examined as of December 31, 1992 by examiners from the states of Washington and Oregon. Any comments or findings noted during the examination are summarized in the "Instructions" and/or "Comments and Recommendation" Section of this report.

## INSTRUCTIONS

## 1. Quota Share Reinsurance – Western National Mutual Ins. Co. Contract

The Company has a 100% quota share agreement with its parent, Western National Mutual Insurance Company. WNMIC is not authorized to transact business in Washington State and therefore is subject to the unauthorized company provisions of RCW 48.12.160 for reserve credits taken. The Company has chosen to apply RCW 48.12.160(1)(c)(i) which requires the ceding company, Western National Assurance Company, to withhold funds in an amount equal to the reserve credits taken.

**Several non-compliance issues were disclosed in our examination of the reinsurance arrangement and the Company is instructed to correct these. These are as follows:**

### a. Deficiency of deposit for reserve credit

The Company took a $9,542,684 reserve credit on the quota share agreement in 1998, but only withheld funds of $6,016,263. The provisions of RCW 48.12.160(1) state,

> "The credit on ceded risks reinsured by any insurer which is not authorized to transact business in this state may be taken: (c) In an amount not exceeding: (i) The amount of deposits by and funds withheld from the assuming insurer pursuant to express provision therefor in the reinsurance contract, as security for the payment of the obligations thereunder, if the deposits or funds are assets of the types and amounts that are authorized under chapter 48.13 RCW and are held subject to withdrawal by and under the control of the ceding insurer…"

On December 31, 1998, the Company was entitled to a reserve credit $6,016,263, not $9,542,684. The difference of $3,526,421 has been non-admitted for our examination report. The Company is instructed to non-admit any portion of the reserve credit taken that is in excess of the funds withheld under the reinsurance contract.

### b. Incorrect classification of funds withheld under quota share reinsurance contract

The Company has classified the funds withheld under the quota share reinsurance contract as an intercompany payable on page 3, line 18 in error. The NAIC Annual Statement Instructions require the funds withheld to be recorded and classified on page 3, line 11, funds held by Company under reinsurance treaties and page 60, Schedule F – Part 3, Column 14.

**The Company is instructed to comply with RCW 48.05.250 and WAC 284-07-050(2), which states,**

> "To effectuate RCW 48.05.250,…and to enhance consistency in the accounting treatment accorded various kinds of insurance transactions, the valuation of assets, and related matters, insurers shall adhere to the appropriate Annual Statement Instructions and the Accounting Practices and Procedures Manuals promulgated by the NAIC."

**c. Contract provisions**

**Several provisions and/or the absence of required provisions were noted in our examination of the reinsurance contract. The Company is instructed to correct these non-compliant areas and submit the reinsurance contract for approval under RCW 48.31B.030(1)(b)(iii) by the Washington State Insurance Commissioner's Office. The following areas were noted as non-compliant:**

i.) The Contract was silent as to the requirements of funds withheld under a reinsurance treaty with an unauthorized reinsurer. RCW 48.12.160(1)(c)(i) requires these terms to be expressly stated within the contract.

ii.) Addendum #2 to the quota share reinsurance contract eliminates risk transfer by the adjustment of commissions retroactively based on experience in order to eliminate any deficit or surplus created due to unfavorable or favorable experience, respectively. This is a violation of RCW 48.12.164 which states,

> "Credit for reinsurance, as either an asset or a deduction, is prohibited in an accounting or financial statement of the ceding insurer in respect to the reinsurance contract unless, in such contract, the reinsurer undertakes to indemnify the ceding insurer against all or a part of the loss or liability arising out of the original insurance."

iii.) Addendum #2 was never filed with the Washington State Insurance Commissioner's Office as required under the Insurer Holding Company Act. RCW 48.31B.030(1)(b)(iii) states,

> "The following transactions involving a domestic insurer and a person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into the transaction and the commissioner declares the notice sufficient at least sixty days before, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period: (iii) Reinsurance agreements or modifications to them in which the reinsurance premium or a change in the insurer's liabilities equals or exceeds five percent of the insurers surplus as regards to policyholders,…"

**d. Inadequate ceding commission**

In the contract, Article VIII – Commission states, the reinsurer shall allow a commission of 32% on all premiums ceded. The ceding commission is for the provision of dividends, commissions, taxes, assessments, and all other expenses of whatever nature, except *allocated* loss adjustment expense.

Analysis of the terms of this provision indicates the ceding commission is not adequate to cover the Company's underwriting expenses. The Company has shown losses on this contract since inception in 1997. T**he Company is instructed to increase the ceding commission to an appropriate level to cover the underwriting expenses.**

Additionally, paragraph B of this provision states,

"It is expressly agreed that the ceding commission allowed the Company includes provision for all dividends, commissions, taxes, assessments, and all other expenses of whatever nature, **except loss adjustment expense**."

This should correctly state, **except *allocated* loss adjustment expense**.

## 2. Quota Share Reinsurance – Crop Hail Contract

On April 1, 1998, the Company entered into a quota share reinsurance contract for its crop hail line of business. The agreement was brokered by E. W. Blanch Company and the risk was spread between nine individual reinsurers and six additional individual reinsurers in the Mutual Reinsurance Bureau. Of these fifteen reinsurers, nine were not authorized in Washington State and the Company listed three of the nine as authorized in Schedule F, Part 3. The nine unauthorized companies assumed approximately forty-two and one half percent of the ninety percent of crop hail ceded in 1998.

Five of the nine are unauthorized individual alien reinsurers subject to RCW 48.12.160(1)(b), and the other four are unauthorized individual foreign reinsurers subject to RCW 48.12.160(1)(c). None of the nine companies were in compliance with RCW 48.12.160, which requires trust funds or funds withheld in amounts not less than the liabilities ceded. In addition, none of the alien companies were in compliance with RCW 48.12.166, which requires assuming alien reinsurers to register with the commissioner.

No reserve credit was taken by the Company as of December 31, 1998 because crop hail insurance is underwritten on seasonal basis and all reinsurance settlements are made by year's end. The Company's quarterly financial statements did reflect reserve credits for which it was not entitled.

**The Company is instructed to properly file its quarterly statements to reflect increases in reserves for unauthorized reinsurers that are not in compliance with RCW 48.12.160 and RCW 48.12.166. Additionally, the Company is instructed to monitor and verify the status of all reinsurers in order to maintain full and adequate accounts and records of its assets, obligations, transactions and affairs as required by RCW 48.05.280.**

## 3. Reinsurance Assumed – Flathead Farm Mutual Insurance Company

WNAC entered into a crop hail quota share reinsurance contract with Flathead Farm Mutual Insurance Company on April 1, 1998. Under the terms of the contract, WNAC retains 100% of Flathead's net liability and Western National Mutual Insurance Company is a guarantor if WNAC is unable to honor the terms of the agreement. WNAC did not disclose the reinsurance assumed in 1998 on its annual statement as required on schedule F, part 1. The Company disclosed the assumed business as if it had generated and underwritten it through its managing general agent, Crop Hail Management (CHM).

**The Company is instructed to comply with RCW 48.05.250, and WAC 284-07-050(2), which states,**

> "To effectuate RCW 48.05.250,…and to enhance consistency in the accounting treatment accorded various kinds of insurance transactions, the valuation of assets, and related matters, insurers shall adhere to the appropriate Annual Statement Instructions and the Accounting Practices and Procedures Manuals promulgated by the NAIC."

In addition, RCW 48.05.280, "Records and Accounts of Insurers", requires that,

> "Every insurer shall keep full and adequate accounts and records of its assets, obligations, transactions, and affairs".

## 4. Managing General Agent – Crop Hail Management, Inc.

A Managing General Agent (MGA) as defined by RCW 48.98.005(3)(a) means: A person who manages all or part of the insurance business of an insurer and acts as a representative of the insurer and who directly or indirectly underwrites an amount of gross direct written premium equal to or more than five percent of the policyholder surplus as reported in the last annual statement. In 1998, CHM directly or indirectly underwrote gross direct written premium of approximately $2.8 million or forty eight percent of policyholder surplus.

**Several exceptions to Chapter 48.98 RCW were disclosed in our audit of the MGA, Crop Hail Management. The Company is instructed to correct these deficiencies and exceptions as noted below:**

### a. MGA licensure and appointment

In 1998, CHM did not underwrite any business in Washington State but was still required to be licensed and appointed as a MGA as required by RCW 48.98.010(2). CHM sold crop hail insurance in Washington in 1999 and was licensed as an agent in Washington in 1999, but was not designated as a MGA and appointed as such to WNAC as required pursuant RCW 48.98.010(1).

### b. Audited financial statements

WNAC did not have on file an independent audited financial statement of CHM, nor was one available for 1998. RCW 48.98.020(1) requires the insurer to have on file an independent audited financial statement, in a form acceptable to the insurance commissioner.

### c. On-site review

WNAC has never conducted an on-site review of the underwriting and claims processing operations of CHM since the inception of the of the MGA arrangement in March 1998. RCW 48.98.020(3) requires the insurer to periodically, and no less frequently than semiannually, conduct an on-site review of the underwriting and claims processing operations of the MGA.

### d. Fiduciary accounts

Funds held by CHM are not in compliance with RCW 48.98.015(3), which require the MGA to hold funds collected for the account of an insurer in a fiduciary capacity in a financial institution located in Washington State that is a member of the federal reserve system. In 1998, four separate non-compliant accounts were used to pay claims:

i.) Valley Bank in Kalispell, MT on behalf on Flathead Farm Mutual,
ii.) First American Bank in Washburn, WI on behalf of North American Crop Underwriters,
iii.) Norwest Bank of Colorado in Golden, CO on behalf of Crop Hail Management, and
iv.) Brenton Bank of Des Moines, IA on behalf of Iowa Grain and Feed.

### e. Claim thresholds

The MGA agreement allows CHM to settle claims on behalf of the insurer. The thresholds for claims set by the commissioner under WAC 284-12-280 are twenty thousand dollars. RCW 48.98.015(7)(b)(iii) &(v) requires the MGA to report and send a copy of the claim file to the insurer as soon as it is known the claim may exceed the thresholds set. This provision has not been implemented nor expressly provided for in the MGA agreement.

**f. Contract provisions**

RCW 48.98.015 lists at a minimum, the provisions that are expressly required in a contract between an insurer and a managing general agent. Several of the required provisions are not present and/or not in active compliance. The Company is instructed to rewrite the contract in compliance with RCW 48. 98.015. This would include but not be limited to a provision to document the load charged to WNAC on claims paid by CHM, claim thresholds pursuant RCW 48.98.015(7), and the rendering of all accounts on not less than a monthly basis pursuant RCW 48.98.015(2).

## 5. Intercompany Agreement

The Intercompany Cost Sharing Arrangement with Western National Mutual Insurance Company has not been submitted and reviewed by our office as required by RCW 48.31B.030 (1)(b)(vi).

**The Company is instructed to file the Intercompany Cost Sharing Agreement with the Washington State Insurance Commissioner's Office pursuant to RCW 48.31B.030. The agreement should include additional documentation, which explicitly states the services and responsibilities under the performance of the contract and should be properly signed and dated by both companies.**

## 6. Intercompany Payable

The Intercompany payable account consisted of an estimated accrual of $200,000 for the intercompany cost sharing agreement and funds withheld of $6,016,263 under the quota share reinsurance treaty. Two problems were noted in our review of intercompany payables. First, the Company materially under accrued the intercompany cost sharing agreement by $224,575, and secondly, the funds withheld for the quota share reinsurance treaty should have been classified as funds held by Company under reinsurance treaties on page 3, line 11 and page 60, Schedule F – Part 3, Column 14.

The examination report reflects this reclassification and an adjustment to increase the accrual to the actual $424,575 of expenses incurred under the cost sharing agreement. The deficiency in the accrued amount was primarily due to materially higher premiums and higher than expected losses in Minnesota under property coverage due to a severe hailstorm in 1998. These variables should have been reflected in the accrual because the Company was aware of them at year-end.

**The Company is instructed to review intercompany accrual estimates and properly classify liabilities per the NAIC to comply with RCW 48.05.250 and WAC 284-07-050(2).**

## 7. Annual Shareholders Meeting

The Company has not held the annual shareholders meetings in a timely manner as required by statute. Pursuant to RCW 48.07.040, the Company is required to hold an annual shareholders meeting in the first four months of every year for the purpose of receiving reports of its affairs and to elect directors. Section 4 of the Company's Bylaws indicate the annual shareholders meeting shall be held on the fourth Tuesday in March of each calendar year, which would have been in compliance. The most recent Annual Shareholders meetings were held on the following dates:

1999 May 27, 1999
1998 June 8, 1998

**The Company is instructed to hold it annual shareholders meeting by April 30th of each year to comply with RCW 48.07.040. If the Company is unable to organize annual shareholders meetings on the fourth Tuesday in March as instructed by the Bylaws, then it should formally file amended Bylaws pursuant to WAC 284-02-080(8).**

## 8. Custodial Agreement

A review of the custodial agreement noted that the agreement is still in the name of First Bank National Association and should have been changed to the new name, U.S. Bank. Nor does the agreement include the required provisions for indemnifying the Company for lost securities, and thus, does not conform to the standards set forth by the NAIC's Examiners Handbook.

**The Company is instructed to execute a custodial agreement with U.S. Bank that includes the required provisions for indemnifying the Company for lost securities as promulgated by NAIC guidelines and WAC 284-07-050. The following are the required NAIC provisions detailed in the Examiners Handbook, Volume 1, Pt 1, Section IV, H.1.a, c&d, Custodial or Safekeeping Agreements:**

a. "That the bank or trust company as custodian is obligated to indemnify the insurance company for any loss of securities of the insurance company in the bank or trust company's custody, except that, unless domiciliary state law, regulation, or administrative action otherwise require a stricter standard (Section 1.b. sets forth an example of such a stricter standard), the bank or trust company shall not be so obligated to the extent that such loss was caused by other than the negligence or dishonesty of the bank or trust company;

b. That in the event of a loss of the securities for which the bank or trust company is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced; and may provide;

c. That the bank or trust company shall not be liable for any failure to take any action required to be taken hereunder in the event and to the extent that the taking of such action is prevented or delayed by war (whether declared or not and including existing wars), revolution, insurrection, riot, civil commotion, act of God, accident, fire, explosions, stoppage of labor, strikes or other differences with employees, laws, regulations, orders or other acts of any governmental authority, or any other cause whatever beyond its reasonable control".

## 9. Brokerage Accounts

The Company has bonds in the custody of two brokerage firms, Dain Rauscher Investment Services and Dougherty Summit Securities. The Company's use of these brokerage firms is not in compliance with NAIC requirements as set forth below.

**The Company is instructed to place its investments held in the custody of these brokerage firms into the custody of a bank, trust company, or a securities depository that is regulated by the Securities Exchange Commission, the Federal Reserve Board and the banking authorities in its state of domicile, with a properly executed custodial agreement, as promulgated by NAIC guidelines and WAC 284-07-050.**

The following is the required NAIC provision detailed in the Examiners Handbook, Volume 1, Pt 1, Section IV, H.2.c&f., Custodial or Safekeeping Agreements:

If the securities are held in a bank or trust company Section IV, H.2.c applies:

> "…The securities are held by a bank or trust company licensed by the United States or any state thereof, and such bank or trust company is regularly examined by the licensing authority; The securities so deposited are at all times kept separate and apart from other deposits with the custodian, so that at all times they may be identified as belonging solely to the company for which they are held;…"

If the securities are held in a securities depository then Section IV, H.2.f applies:

> "Where not prohibited by domiciliary state law, an insurance company may, under a written agreement, use the facilities of a securities depository, either directly or though a custodian bank or trust company, which meets the requirements of Section c. above. In such cases, the examiners shall:…Ascertain that the securities are held by a depository regulated by the Securities and Exchange Commission, the Federal Reserve System, and the banking authorities in its state of domicile."

## 10. Accounts, Records and Internal Controls

Our examination of accounts and records disclosed weaknesses of internal controls in several areas of the Company's operations as well as inadequate support for financial records. Testing and sampling techniques performed during our fieldwork were adjusted to compensate for the weaknesses detected. It was determined that the weaknesses did not materially effect the Company's financial statements.

**The Company is instructed to correct all deficiencies noted below and institute written guidelines that are periodically reviewed for adherence. This will ensure full and adequate accounts and records of its assets, obligations, transactions, and affairs in compliance with RCW 48.05.280 and enhance the credibility and accuracy of future statutory and other filings. The following deficiencies were not all inclusive, but were deemed significant enough for separate mention:**

### a. Classified Trial Balance

The Company does not have a full and adequate reconciliation showing an audit trail from the general ledger accounts and non-ledger accounts to the annual statement. Consequently, it was very difficult to compile a classified trial balance necessary for auditing the separate financial statement account balances. The Company, at a minimum, needs to produce and maintain an adequate reconciliation of the component accounts that support the annual statement balances including the underlying schedules required for non-ledger items.

### b. Bank Reconciliations

The following problems were detected in our audit of bank accounts and reconciliation of those accounts:

i. Most reconciliations did not show documentation of supervisory review or approval.
ii. Several bank accounts indicated unreconcilied differences and/or posting errors which were not investigated and disposed of in a timely fashion. Many of these were intercompany payments and receipts that were posted to the wrong company's account.
iii. Check numbers were unaccounted for and missing from sequence. No documentation could be supplied for verification of outstanding, voided, or lost status. This problem was noted in the Richfield Bank & Trust, Fidelity Bank, and Key Bank accounts.

### c. Dual Signatures on Checks

The Richfield Bank & Trust general disbursement account in Minnesota requires all checks over twenty five thousand dollars to have two authorized signatures per resolution by the Board of Directors. Our random statistical sample indicated approximately twenty seven percent of all checks over twenty five thousand were not signed as required with two signatures.

**d. Disbursement Controls**

Our review of claim and general administrative disbursements indicated several areas of control weaknesses that require immediate management attention in order to effectively safeguard Company assets. The general administrative control weaknesses stemmed primarily from lack of separation of duties. In several of the disbursements sampled, it was noted the same person would approve, receive, and sign check for payment on purchases or reimbursements. This was particularly chronic in the smaller Seattle office where minimal staffing contributed to the problem.

It was also noted in our sample that one reimbursement for lodging, meals, green fees, etc., did not include documentation on the purpose of the trip. This disbursement was approved by and paid to the same person. At a minimum, a registration form or flier should be included to show the purpose of trip to maintain compliance with RCW 48.07.100(1), which states,

" No domestic insurer shall make any disbursement of twenty-five dollars or more, unless evidenced by a voucher correctly describing the consideration for the payment and supported by a check or receipt endorsed or signed by or on behalf of the person receiving the money."

In another instance, the purchase of a computer system was approved, received and signed for by the same person. The computer was not on the inventory listing and it was disclosed that it was located at that employee's house for the purpose of year 2000 compliance testing and verification.

**e. Claim disbursements – Crop Hail**

Our review of claim disbursements for crop hail noted that several different bank accounts and entities in different geographical locations were used to pay claims. Policy records were also maintained at several different locations between Montana and Colorado. Our sample noted that claim payments were made by Crop Hail Management and by Flathead Farm Mutual, North American Crop Underwriters, and Iowa Grain and Feed on behalf of CHM. This made auditing the claims very difficult and caused non-conformity and inconsistencies in the claim records. The following lists the several deficiencies and/or exceptions noted in our review of the crop hail claims:

i. 9.8% of the sample had discrepancies between the automated claim system and the claim file.
ii. 9.8% of binders or applications could not be located to verify policy coverage and effective dates.
iii. 4.9% of claims did not have proof of loss as evidenced by cancelled check or draft for the correct amount.
iv. 4.9% showed no evidence of proof of authorization to pay claim by proper loss and adjuster records.

47.5% of the total dollar value of crop hail claims were sampled during our review.

## 11. Crop Hail Management Contract

A thorough review of contracts, claims, transactions, and other areas of statutory and NAIC compliance was conducted on the crop hail business and the contract with Crop Hail Management. Several areas of weaknesses and non-compliance were disclosed in our review. It appears the majority of these problems were due to the following:

1. Non centralized claim processing.
2. Lack of oversight by WNAC.
3. Poor integration of systems between Flathead Farm Mutual, CHM, and WNAC.
4. Non-compliance with MGA contract and Washington MGA statutes.

**The Company is instructed to bring its contract into compliance with Washington statutes as noted above, and it is recommended the Company review and correct these deficiencies and weaknesses as soon as possible. Additionally, the Company should develop procedures and controls for the effective and continual involvement in the oversight and management of this line of business.**

## 12. Schedule F – Reporting Deficiencies

Mutual Reinsurance Bureau is a group of reinsurers which should have been individually listed on Schedule F under the appropriate authorized and unauthorized sections of schedule F, Part 3. Unauthorized companies were disclosed in two separate reinsurance contracts, the crop hail quota share as indicated above and a property catastrophic excess of loss treaty. Fifty percent (three) of the property catastrophic excess of loss reinsurers were unauthorized companies and reported as authorized in schedule F, Part 3. In addition, the Company did not list a facultative property reinsurance agreement with Motors Insurance Corporation on Schedule F, Part 3.

**The Company is instructed to properly file its annual and quarterly statements to reflect increases in reserves for unauthorized reinsurers that are not in compliance with RCW 48.12.160 and RCW 48.12.166. Additionally, the Company is instructed to individually list the reinsurers on schedule F, monitor, and verify the status of all reinsurers in order to maintain full and adequate accounts and records of its assets, obligations, transactions and affairs as required by RCW 48.05.280.**

# COMMENTS AND RECOMMENDATIONS

### 1. Crop Hail Reinsurance

Crop hail premium volume almost doubled in 1999 over 1998. The Company should monitor Guy Carpenters' ability to negotiate reinsurance contracts for the crop hail business. The crop hail business has sustained underwriting losses in 1998 and 1999. It may be difficult to secure another contract given the past experience of this business. Our examination noted E.W. Blanch (EWB) had difficulty in 1998 securing reinsurance on the Company's crop hail business.

### 2. Management and Control

The examination disclosed that, with one exception, the Board of Directors is comprised entirely of Company employees. In order to help ensure a stronger business environment of independence, to improve the execution of fiduciary responsibilities, and to help foster a better internal control process, it is recommended that the Company consider changing its bylaws to include a minimum number of "outside" directors be appointed to the Board.

# HISTORY

Western National Assurance Company, was incorporated in and received its first certificate of authority from the state of Washington on June 28,1957, under the name "Cascade Insurance Company". The Company commenced business on July 1, 1957. At present, the Company's articles of incorporation and certificate of authority authorize the Company to write multiple lines property and casualty insurance in seventeen states of the Western and Midwestern Zones and the District of Columbia. The Company also writes substandard auto policy in the state of Minnesota only.

United Pacific Insurance Company of Tacoma, Washington, wholly owned the Company when it was initially organized. On July 1, 1972, United Pacific assumed all of the then existing business of the Company and placed it in a dormant status. On July 1, 1974, United Pacific sold the "shell" of the Company to Western National Mutual Insurance Company (WNMIC) of Minneapolis, Minnesota, which continued to hold the dormant status of the Company.

On December 11, 1975, the Company name was changed from "Cascade Insurance Company" to its present name and its principal place of business moved to 155 100$^{th}$ Street, Seattle, Washington, 98125. In May 1976, the Company resumed active operations.

## MANAGEMENT AND CONTROL

The Company is 100 percent owned and controlled by Western National Mutual Insurance Company (WNMIC) of Minneapolis, Minnesota, NAIC Company Code 15377. WNMIC ownership is represented in the board of directors by Mr. George Klouda, Chairman of the Board. Mr. Klouda has been given authority to vote all of WNMIC shares of WNAC.

**Board of Directors**

The Company's bylaws provide that each director shall be elected at the annual shareholders' meeting. Vacancies on the Board shall be filled by a majority vote of the remaining members. The bylaws also provide that not less than five members of the Board of Directors shall exercise its corporate powers. With the exception of Mr. McGinnis, all members of the Board are officers of the parent, Western National Mutual Insurance Company. As of December 31, 1998, the Company had the following seven directors:

| | | | |
|---|---|---|---|
| Donald M. White, Chairman | Cynthia Sue Mitchell | Wayne H. Kahler | Eugene G. Miller |
| Marshall R. McGinnis | Kenneth T. Stover | Paul R. Nelson | |

**Officers**

The Company officers as of December 31, 1998, consisted of the following:

| | |
|---|---|
| Donald M. White, President | Cynthia Sue Mitchell, Senior Vice President/Secretary |
| Wayne H. Kahler, Treasurer | Marshall McGinnis, Executive Vice President, Seattle Operations |
| Eugene G. Miller, Vice President | Kenneth T. Stover, Vice President |

**Affiliated Companies**

***Western National Mutual Insurance Company*,** the Company's parent was originally incorporated on May 6, 1915 as the Mutual Creamery and Cheese Factory Liability Insurance. The name was changed later to Mutual Creamery Liability Insurance Company on January 7, 1936 and to Mutual Creamery Insurance Company on January 21, 1952 and to its present name, Western National Mutual Insurance Company on February 19, 1970. Western National Mutual Insurance Company is authorized to write all lines of property and casualty insurance.

## CORPORATE RECORDS

Review of the minutes of the Board of Directors of the Company for the period under examination did not indicate any material changes to the corporate Bylaws and the Articles of Incorporation. All corporate records are maintained in Minneapolis, Minnesota at WNMIC's home office.

## FIDELITY BONDS AND OTHER INSURANCE

Fidelity bonds and other insurance were reviewed to ensure the Company has adequately identified and maintained coverage for property and liability claims that may arise out of the ordinary course of business. Our examination determined the company has adequately insured itself against unforeseen property and liability exposures and fidelity bond coverage for directors, officers, and key employees. Additionally, the Company's fidelity bonds and other insurance meet or exceed all statutory and/or NAIC minimum guidelines to protect Company assets and policyholders.

## EMPLOYEE WELFARE AND PENSION PLANS

The parent, WNMIC, provides life, medical, disability, and a dental plan for the Company's officers and its employees.

All active full-time employees, except temporary employees, are eligible to participate in the employees benefits plan after one month of employment service. The Company pays seventy five percent of the premiums for major medical, life insurance, AD&D, and long term disability coverage for the employees and major medical for their dependents. The Company pays 100 percent of the premiums of dental coverage for employees and dependents. Both dental and major medical are subject to deductible coinsurance.

The Company is covered under the Western National Salary Accumulation Program which is qualified as a thrift plan under section 401k of the Internal Revenue Code. Every employee is eligible at age twenty-one and over and has completed one year of continued service. The Company matches the employee's contribution with a 50% matching contribution up to the first 3% of the employee's earnings. Participants are fully vested in their contributions and become fully vested in the Company's contributions over a seven year period. Under the Plan, the Company may elect to make discretionary contributions which are determined by the Board of Directors.

In addition, the Company provides a limited profit sharing plan for all qualified employees except temporaries. In this plan, benefits are disbursed twice annually on March 31st and September 30$^{th}$, based on the underwriting result of the parent, WNMIC. During the period covered by the examination, the underwriting profit of the parent was deemed insufficient to provide profit sharing to qualified employees.

## TERRITORY AND PLAN OF OPERATION

The Company is currently licensed to do business in the following sixteen states and the District of Columbia:

| | | | | |
|---|---|---|---|---|
| Alaska | Arizona | California | Colorado | Hawaii |
| Idaho | Indiana | Minnesota | Montana | Nevada |
| North Dakota | Oregon | Utah | South Dakota | Washington |
| Wisconsin | Washington D.C. | | | |

Direct premiums were generated in 8 of these states during the period covered in this examination. The Company's Underwriting, Policy preparation, Claim settlement, and draft issuance are conducted at the Seattle regional office or the main administrative offices in Minneapolis, Minnesota.

## GROWTH OF THE COMPANY

The growth of the Company is reflected in the following schedule compiled from the Company's Annual Statements as of December 31:

| | 1998* | % Change | 1997 | % Change | 1996 | % Change | 1995 | % Change | 1994 |
|---|---|---|---|---|---|---|---|---|---|
| Assets | $15,337,584 | (1%) | $15,488,485 | 7% | $14,518,020 | 0% | $14,486,599 | 6% | $13,701,387 |
| Liabilities | 13,259,751 | 42% | 9,346,332 | (3%) | 9,600,127 | (1%) | 9,699,171 | 7% | 9,073,213 |
| Unpaid losses | 5,176,713 | 103% | 2,547,077 | (39%) | 4,205,730 | (3%) | 4,321,254 | 9% | 3,953,342 |
| Common stock | 3,000,000 | 0% | 3,000,000 | 0% | 3,000,000 | 0% | 3,000,000 | 0% | 3,000,000 |
| Unassigned funds | (922,167) | (129%) | 3,142,153 | 64% | 1,917,892 | 7% | 1,787,428 | 10% | 1,628,174 |
| **Total capital and surplus** | **2,077,833** | (66%) | **6,142,153** | 25% | **4,917,892** | 3% | **4,787,428** | 3% | **4,628,174** |
| Premiums earned | 0 | 0% | 0 | (100%) | 6,583,298 | (2%) | 6,722,648 | (0%) | 6,744,209 |
| Losses Incurred | 72,968 | (140%) | (182,437) | (105%) | 4,023,871 | 8% | 3,708,830 | 9% | 3,408,820 |
| Loss expenses incurred | 789,499 | (10%) | 877,403 | 63% | 539,522 | (51%) | 1,101,806 | (22%) | 1,413,042 |
| Other underwriting expenses incurred | 336,573 | (203%) | (326,727) | (114%) | 2,337,131 | (2%) | 2,374,587 | 1% | 2,352,933 |
| Net underwriting gain (loss) | (1,199,040) | 215% | (381,245) | 4% | (365,474) | (9%) | (401,321) | (13%) | (460,749) |
| Net investment income | 351,688 | (56%) | 794,702 | 0% | 791,859 | (2%) | 811,592 | 6% | 767,174 |
| Other income (loss) | 22,117 | 332% | (9,538) | 88% | (76,968) | 133% | (33,029) | 67% | (99,629) |
| **Net gain (loss)** | **($825,235)** | (298%) | **$416,925** | 5% | **$397,665** | 26% | **$315,988** | 33% | **$236,959** |

*** = Balances per examination**

## BUSINESS IN FORCE BY STATES

The following schedule reflects direct written premiums by the Company for the year ended December 31, 1998:

| | | | |
|---|---|---|---|
| Colorado | $313,391 | Oregon | 112,611 |
| Idaho | 882 | Utah | 857 |
| Minnesota | 4,644,370 | Washington | 6,672,203 |
| Montana | 2,504,191 | **Total** | **$14,248,505** |

## UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Losses were reviewed and attested to by our in house actuarial staff of D. Lee Barclay, FCAS, MAAA, Senior Actuary and Eric Slavich, Actuarial Analyst. The unpaid losses were attested to as adequate on a net basis of reinsurance and on a gross basis of the quota share agreement with the parent, Western National Mutual Insurance Company. The reserves carried by the Company for Unpaid Losses and Loss Adjustment Expenses were $1,650,292 and $1,222,108, respectively, as of December 31, 1998. These reserves were reviewed by the casualty actuarial staff employed by the Commissioner's Office. The Company's Consulting actuarial firm, Milliman & Robertson, provided loss and loss adjustment expense development data by line of business. The actuarial staff obtained additional information by interviewing several Company employees. They also reviewed an actuarial report prepared by Milliman & Robertson.

The OIC actuarial staff's estimates indicate that reserves for losses and loss adjustment expenses on a net basis, are within a reasonable range. Our examination noted that reserve credits on a 100% quota share reinsurance agreement with the Company's parent, WNMIC, of $3,526,421 were non-admissible under RCW 48.12.160. (See examination adjustment A1). The actuarial staff reviewed the reserves and loss adjustment expenses gross of the quota share treaty and indicated that no separate additional reserves or loss adjustment expenses were required. The liability for reserves was increased by $3,526,421 due to the non-admissible reserve credits to a total of $5,126,713, and loss adjustment expenses were deemed adequate as of December 31, 1998.

## REINSURANCE

Reinsurance agreements were reviewed for compliance to Washington State reinsurance statutes. In addition, all reinsurers were verified as authorized or unauthorized and noted if properly classified in schedule F. Several discrepancies and errors were noted in our review. These are disclosed in the "Instructions" portion of the examination report. The Company increased its catastrophe coverage in 1999 due to adverse property claim development in 1998 due to higher than expected natural weather events. The Company's reinsurance program appears adequate to protect and cover its policyholders and assets in the event of future catastrophic unforeseen events.

## ACCOUNTS AND RECORDS

The Company's accounts and records are maintained on a Generally Accepted Accounting Principles (GAAP) Basis of accounting and are converted to Statutory Accounting Practices (SAP) accrual basis for reporting purposes.

## SUBSEQUENT EVENTS

**Management**

In November 1999, the Board of Directors removed Donald M. White as President and appointed Cynthia Sue Mitchell, former Senior Vice President and Secretary as President and Chairman of the Board.

**WESTERN NATIONAL ASSURANCE COMPANY**
**Statement of Assets, Liabilities, Surplus and Other Funds**
**December 31, 1998**

| **Assets** | **Balance Per Company** | **Ref** | **Adjustments** | **Balance Per Exam** |
|---|---|---|---|---|
| Bonds | 12,007,615 | | | 12,007,615 |
| Cash on hand and on deposit | 1,737,043 | | | 1,737,043 |
| Short term investments | 281,879 | | | 281,879 |
| Premiums and agents' balances in course of collection | 989,237 | | | 989,237 |
| Reinsurance recoverables on loss and loss adjustment expense payments | 139,307 | | | 139,307 |
| Interest, dividends and real estate income due and accrued | 182,503 | | | 182,503 |
| **Total assets** | **15,337,584** | | **0** | **15,337,584** |
| | | | | |
| **Liabilities, surplus and other funds** | | | | |
| | | | | |
| Losses | 1,650,292 | **A1** | 3,526,421 | 5,176,713 |
| Loss adjustment expenses | 1,222,108 | | | 1,222,108 |
| Contingent commissions and other similar charges | 26,423 | | | 26,423 |
| Other expenses (excluding taxes, licenses and fees) | 92,383 | | | 92,383 |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | 151,887 | | | 151,887 |
| Funds held by company under reinsurance treaties | | **R1** | 6,016,263 | 6,016,263 |
| Amounts withheld or retained by company for account of others | 81,317 | | | 81,317 |
| Excess of statutory reserves over statement reserves | 46,834 | | | 46,834 |
| Payable to parent, subsidiaries and affiliates | 6,208,821 | **R1/A2** | (5,791,688) | 417,133 |
| Accounts payable | 28,690 | | | 28,690 |
| **Total liabilities** | **9,508,755** | | **3,750,996** | **13,259,751** |
| | | | | |
| Common capital stock | 3,000,000 | | | 3,000,000 |
| Unassigned funds | 2,828,829 | **A1/A2** | (3,750,996) | (922,167) |
| **Total surplus and other funds** | **5,828,829** | | | **2,077,833** |
| **Total liabilities, surplus and other funds** | **15,337,584** | | **3,750,996** | **15,337,584** |

**WESTERN NATIONAL ASSURANCE COMPANY**
**Underwriting and Investment Exhibit Statement of Income**
**For the Year Ended 1998**

| | Balance Per Company | Ref | Adjustments | Balance Per Exam |
|---|---|---|---|---|
| **UNDERWRITING INCOME** | | | | |
| **Premiums earned** | **0** | | **0** | **0** |
| **DEDUCTIONS** | | | | |
| Losses incurred | 72,968 | | | 72,968 |
| Loss expenses incurred | 693,412 | **A2** | 96,087 | 789,499 |
| Other underwriting expenses incurred | 210,765 | **A2** | 125,808 | 336,573 |
| Total underwriting deductions | 977,145 | | 221,895 | 1,199,040 |
| **Net underwriting gain or (loss)** | **(977,145)** | | **(221,895)** | **(1,199,040)** |
| **INVESTMENT INCOME** | | | | |
| Net investment income earned | 351,908 | **A2** | (2,680) | 349,228 |
| Net realized capital gains (losses) | 2,460 | | | 2,460 |
| **Net investment gain or (loss)** | **354,368** | | **(2,680)** | **351,688** |
| **OTHER INCOME** | | | | |
| Net gain or (loss) from agents' or premium balances charged off | (3,115) | | | (3,115) |
| Finance and service charges not included in premiums | (80) | | | (80) |
| Other income | 25,312 | | | 25,312 |
| Total other income | 22,117 | | 0 | 22,117 |
| Net income before dividends to policyholders and before federal and foreign taxes | (600,660) | | 0 | (825,235) |
| Net income after dividends to policyholders but before federal and foreign taxes | (600,660) | | | (825,235) |
| Federal and foreign income taxes incurred | 0 | | | 0 |
| **Net income** | **(600,660)** | | **(224,575)** | **(825,235)** |
| | | | | 0 |
| **CAPITAL AND SURPLUS ACCOUNT** | | | | 0 |
| **Surplus as regards policyholders, December 31, 1997** | **6,142,153** | | **0** | **6,142,153** |
| **GAINS AND (LOSSES) IN SURPLUS** | | | | |
| Net income | (600,660) | **A2** | (224,575) | (825,235) |
| Change in non admitted assets | (14,830) | | | (14,830) |
| Examination adjustment | | **A1** | (3,526,421) | (3,526,421) |
| Change in excess of statutory reserves over statement reserves | 302,166 | | | 302,166 |
| Change in surplus as regards policyholders for the year | (313,324) | | | (4,064,320) |
| **Surplus as regards policyholders, December 31, 1998** | **5,828,829** | | **(3,750,996)** | **2,077,833** |

**WESTERN NATIONAL ASSURANCE COMPANY**
**Comparative Statement of Assets, Liabilities, Surplus and Other Funds**
**For December 31,**

| **Assets** | **1998*** | **1997** |
|---|---|---|
| Bonds | 12,007,615 | 12,115,641 |
| Cash and short term investments | 2,018,922 | 2,486,976 |
| Premiums and agents' balances in course of collection | 989,237 | 614,301 |
| Reinsurance recoverables on loss and loss adjustment expense payments | 139,307 | 65,045 |
| Federal income tax recoverable and interest thereon | | 23,725 |
| Interest, dividends and real estate income due and accrued | 182,503 | 182,797 |
| **Total assets** | **15,337,584** | **15,488,485** |
| | | |
| **Liabilities, surplus and other funds** | | |
| | | |
| Losses | 5,176,713 | 2,547,077 |
| Loss adjustment expenses | 1,222,108 | 1,523,000 |
| Contingent commissions and other similar charges | 26,423 | 12,247 |
| Other expenses (excluding taxes, licenses and fees) | 92,383 | 71,936 |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | 151,887 | 33,320 |
| Funds held by company under reinsurance treaties | 6,016,263 | 0 |
| Amounts withheld or retained by company for account of others | 81,317 | 58,524 |
| Excess of statutory reserves over statement reserves | 46,834 | 349,000 |
| Payable to parent, subsidiaries and affiliates | 417,133 | 4,751,228 |
| Accounts payable | 28,690 | 0 |
| **Total liabilities** | **13,259,751** | **9,346,332** |
| | | |
| Common capital stock | 3,000,000 | 3,000,000 |
| Unassigned funds | (922,167) | 3,142,153 |
| **Total surplus and other funds** | **2,077,833** | **6,142,153** |
| **Total liabilities, surplus and other funds** | **15,337,584** | **15,488,485** |

* = Balances per examination

**WESTERN NATIONAL ASSURANCE COMPANY**
**Comparative Underwriting and Investment Exhibit Statement of Income**
**For the Years Ended December 31,**

| | 1998* | 1997 |
|---|---|---|
| **UNDERWRITING INCOME** | | |
| **Premiums earned** | **0** | **0** |
| **DEDUCTIONS** | | |
| Losses incurred | 72,968 | (182,437) |
| Loss expenses incurred | 789,499 | 877,403 |
| Other underwriting expenses incurred | 336,573 | (326,727) |
| Non ledger assets | 0 | 13,006 |
| Total underwriting deductions | 1,199,040 | 381,245 |
| **Net underwriting gain or (loss)** | **(1,199,040)** | **(381,245)** |
| **INVESTMENT INCOME** | | |
| Net investment income earned | 349,228 | 794,702 |
| Net realized capital gains (losses) | 2,460 | 0 |
| **Net investment gain or (loss)** | **351,688** | **794,702** |
| **OTHER INCOME** | | |
| Net gain or (loss) from agents' or premium balances charged off | (3,115) | (4,455) |
| Finance and service charges not included in premiums | (80) | 6,670 |
| Other income | 25,312 | 3,886 |
| Total other income | 22,117 | 6,101 |
| Net income before dividends to policyholders and before federal and foreign taxes | (825,235) | 419,558 |
| Net income after dividends to policyholders but before federal and foreign taxes | (825,235) | 419,558 |
| Federal and foreign income taxes incurred | 0 | 2,633 |
| **Net income** | **(825,235)** | **416,925** |
| **CAPITAL AND SURPLUS ACCOUNT** | | |
| **Surplus as regards policyholders, December 31, 1997** | **6,142,153** | **4,917,892** |
| **GAINS AND (LOSSES) IN SURPLUS** | | |
| Net income | (825,235) | 416,925 |
| Change in non admitted assets | (14,830) | (13,664) |
| Examination adjustment | (3,526,421) | |
| Change in excess of statutory reserves over statement reserves | 302,166 | 821,000 |
| Change in surplus as regards policyholders for the year | (4,064,320) | 1,224,261 |
| **Surplus as regards policyholders, December 31, 1998** | **2,077,833** | **6,142,153** |

* = Balances per examination

**WESTERN NATIONAL ASSURANCE COMPANY**
**Five Year Reconciliation of Capital and Surplus**
**As of December 31,**

| | 1998 * | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| **Capital and Surplus Account** | | | | | |
| **Capital and Surplus, Dec. 31, prior year** | **$6,142,153** | **$4,917,892** | **$4,787,428** | **$4,628,174** | **$4,388,361** |
| **Changes in Capital and Surplus** | | | | | |
| Net gain or (loss) | (825,235) | 416,925 | 397,665 | 315,988 | 236,959 |
| Examination adjustment | (3,526,421) | - | - | - | - |
| Change in non-admitted assets | (14,830) | (13,664) | 5,799 | 4,266 | 4,854 |
| Change in excess of statutory reserves over | | | | | |
| Statement reserves | 302,166 | 821,000 | (273,000) | (161,000) | (2,000) |
| Change in reserves and unassigned funds for the year | **(4,064,320)** | **1,224,261** | **130,464** | **159,254** | **239,813** |
| **Capital and Surplus, Dec. 31, current year** | **$2,077,833** | **$6,142,153** | **$4,917,892** | **$4,787,428** | **$4,628,174** |

*** = Balances per examination**

## ADJUSTMENTS AND RECLASSIFICATIONS

| *Adjustments* | Debit | Credit |
|---|---|---|
| **A1** | | |
| Losses (Pg 3, Col 1, Ln 1) | $3,526,421 | |
| Unassigned Funds (Pg 3, Col 1, Ln26C) | | $3,526,421 |

An adjustment to non-admit reserve credits taken under quota share reinsurance agreement with unauthorized reinsurer.

| | | |
|---|---|---|
| **A2** | | |
| Loss expenses incurred (Pg 4, Col 1, Ln 3) | $96,087 | |
| Other Underwriting Expenses Incurred (Pg 4, Col 1, Ln 4) | 125,808 | |
| Net Investment Income Earned (Pg 4, Col 1, Ln 8) | 2,680 | |
| Payable to Parent, Subsidiaries & affiliates (Pg 3, Col 1, Ln 18) | | $224,575 |

To allocate the underaccrual of intercompany expenses to the proper expense categories and to adjust unassigned funds to reflect additional expenses in 1998.

| *Reclassifications* | Debit | Credit |
|---|---|---|
| **R1** | | |
| Payable to Parent, Subsidiaries & affiliates (Pg 3, Col 1, Ln 18) | $6,016,263 | |
| Funds held by Company under reinsurance treaties (Pg 3, Col 1, Ln 11) | | $6,016,263 |

To reclassify reinsurance funds withheld under the intercompany quota share agreement.

# NOTES TO THE FINANCIAL STATEMENTS

**1. Accounting Policies**

A) Basis of presentation
The financial statements included herein have been prepared in accordance with statutory accounting practices prescribed or permitted by the Washington State Insurance Commissioner's Office.

B) Investments
Investments are stated on the basis of rules promulgated by the National Association of Insurance Commissioners. Bonds, mortgage loans, and short term investments are at amortized value. Preferred and common stocks are valued at market.

C) Property, Plant and Equipment
Buildings, land, and computer equipment are recorded at cost. Depreciation is computed on a straight line basis over the estimated life depending on the type of asset and statutory regulations.

D) Underwriting expense
Underwriting costs such as commissions and general insurance expense are written off in the year incurred and not deferred and amortized against future earnings.

E) Non-admitted assets
Certain assets designated as "non-admitted", consisting of certain receivables over 90 days past due, prepaid expenses, furnishings, equipment and all electronic data processing equipment not meeting the criteria set forth in RCW 48.12.10, have been excluded from the balance sheet. The changes in such assets are reflected as adjustments to net worth.

F) Salvage and subrogation are recorded as reductions of losses incurred on a cash basis.

**2. Bonds** **$ 12,007,615**

For the year ended 1998, the Company had the following distribution of bonds, all of which are NAIC Class 1 rated:

| Type | Amount | of Total |
|---|---|---|
| United States Governments | $2,964,713 | 24.7% |
| State, Territories and Possessions | 40,124 | 0.3% |
| Political Subdivisions of States, Territories and Possessions | 5,400,552 | 45.0% |
| Special Revenue and Special Assessment Obligations | 2,657,255 | 22.1% |
| Public Utilities | 299,499 | 2.5% |
| Industrial and Miscellaneous | 645,472 | 5.4% |
| **Total** | **$12,007,615** | **100.0%** |

As of December 31, 1998, no bonds were in default or delinquent in payment of interest.

**3. Cash and Short Term Investments** **$ 2,018,922**

| | | |
|---|---|---|
| Cash | $ | 1,737,043 |
| Short term investments | | 281,879 |
| **Total** | **$** | **2,018,922** |

As of December 31, 1998, cash consisted of petty cash, negotiable checks, bank drafts, cashiers checks and demand deposits. Short term investments consisted of NAIC class 1 special revenue and special assessment obligations. Cash has ninety days or less maturities and short term investments have one year or less maturities

**4. Credit Lines**

The Company has two equal unsecured $350,000 lines of credit with Richfield Bank and Trust and Fidelity Bank. As of December 31, 1998, there were no outstanding amounts under these lines of credit.

**5 Loss and Loss Adjustment Expenses**

The liability for unpaid losses and loss adjustment expenses are determined from loss reports, individual cases and an amount based on past experience for losses incurred but not reported. These liabilities are based on estimates that management believes are adequate, but the ultimate liability may be in excess of those reserved. The methods for making such estimates and for establishing the resulting liability are continually reviewed and adjusted as necessary and any changes are reflected in earnings on a current basis.

**6. Intercompany Agreement**

The Company has an intercompany agreement with its parent, WNMIC. Under the agreement, WNMIC provides management, investing, reporting, data and claim processing services for the Company. The Company uses estimates at year end to accrue for the intercompany expense. On December 31, 1998, the Company accrued $200,000 when later the actual amount was determined to $424,575. Examination adjustment two was made to reflect the additional $224,575 of intercompany liabilities.

## ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the Administrator and employees of the Company during the course of this examination.

In addition, acknowledgment is made of the participation in the work and preparation to this report by Michael V. Jordan, CPA, CFE, MHP, Examiner-in-charge, Margerite Horne; John R. Jacobson, AFE; D. Lee Barclay, FCAS, MAAA, Senior Actuary; and Eric Slavich, Actuarial Analyst; Tim Navaja, CFE, all from the Washington State Insurance Commissioner's Office.

# **AFFIDAVIT**

STATE OF WASHINGTON )
) ss
COUNTY OF THURSTON )

Michael V. Jordan, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

Michael V. Jordan, CPA, CFE, MHP
Examiner-in-charge

Subscribed and sworn to before me this _____ day of ________ , 2000.

Notary Public in and for the
State of Washington, residing
at Seattle.

# REPORT OF EXAMINATION
# Western National Assurance Company
# As of December 31, 1998

State Participating:
Washington